

Office

SULLIVAN COUNTY, NEW HAMPSHIRE

BASIC FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

June 30, 2003

With Independent Auditors' Report



BERRY DUNN MCNEIL & PARKER

B | D | M | P

**CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS**

SULLIVAN COUNTY, NEW HAMPSHIRE

June 30, 2003

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SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

This section of Sullivan County, New Hampshire's (County) basic financial statements presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the County's financial statements, which follow this section.

Financial Highlights

- The County's total net assets increased significantly over the course of this year's operations. However, while the net deficit of our business-type activities increased \$2.1 million (or nearly 66 percent), this was offset by an increase of \$2.4 million (or 27 percent) in the net assets of our governmental activities.
- During the year, governmental program expenses were \$2.4 million less than the \$9.9 million generated in taxes and other revenues for governmental programs (before special items). This is a decrease from last year, when revenues exceeded expenses by \$3.7 million.
- In the County's business-type activities, revenues remained flat and expenses increased 5 percent.
- The total cost of the County's programs increased by 13 percent from 2002. No new major programs were added this year.
- The general fund reported a surplus this year of \$1 million.
- The resources available for appropriation were \$648,000 more than budgeted for the general fund.

Overview of the Financial Statements

The basic financial statements and supplementary information consist of four parts—*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents budgetary comparison information for the enterprise fund and *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the County's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the County government, reporting the County's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public welfare were financed in the *short term*, as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like a business*. This fund currently consists solely of the activities of the County nursing home.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, which are added together and presented in a single column in the basic financial statements.

Figure A-1
Required Components of
Sample County's Financial Report

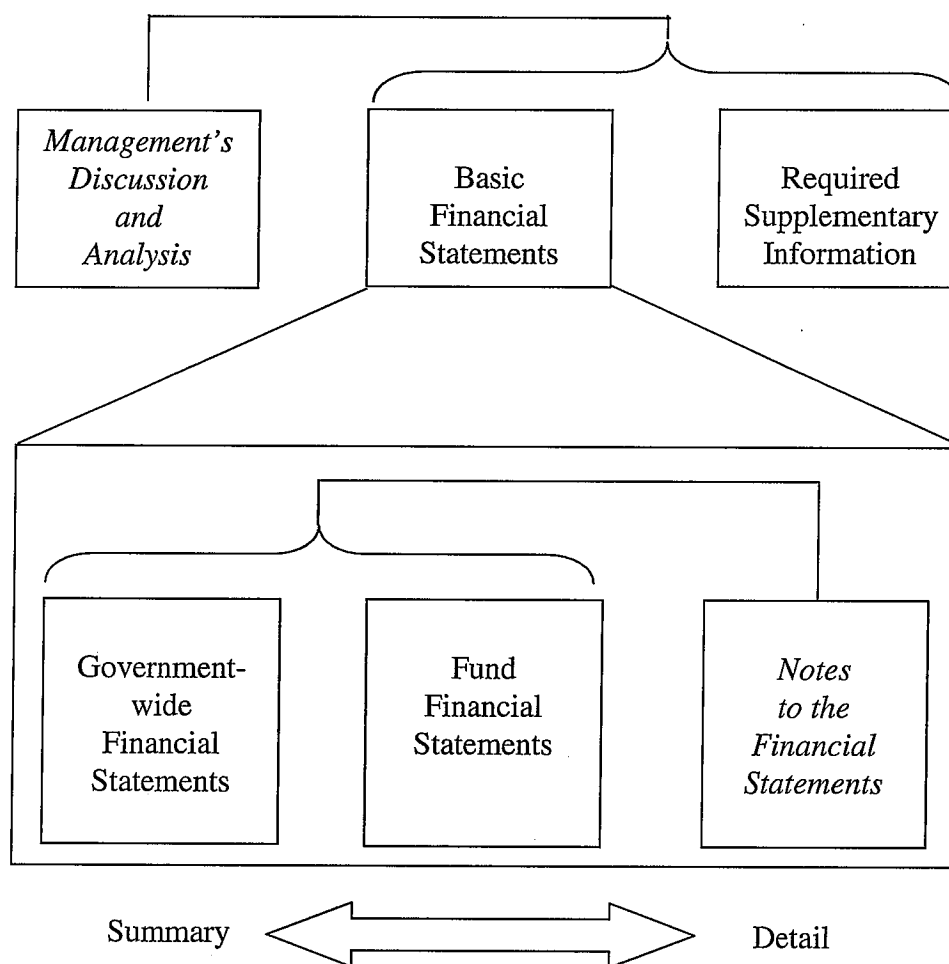


Figure A-2 summarizes the major features of the County's financial statements, including the portions of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Figure A-2
Major Features of Sullivan County's Government-wide and Fund Financial Statements

	Government-wide <u>Statements</u>	<u>Fund Statements</u>	
		<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Scope	Entire County's government	The activities of the County that are not proprietary or fiduciary, such as Sheriff, Commissioners, and Public Welfare	Activities in the County that operate similar to private businesses: the nursing home
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenses, and changes in net deficit • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the County as a whole using accrual accounting methods prescribed for governmental entities. The statement of net assets includes *all* of the government's assets and liabilities. All of the year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County's *net assets* and how they have changed. Net assets—the difference between the County's assets and liabilities—is one way to measure the County's financial health, or *position*.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the County you need to consider additional nonfinancial factors such as changes in the County's property tax base and the quality and availability of public services to County residents.

The information in the government-wide financial statements of the County is divided into two categories:

- *Governmental activities*—Most of the County's basic services are included here, such as the Sheriff's office, Commissioners, Registry of Deeds, treasurer, Department of Corrections, and the cooperative extension service. Property taxes, fees, and state and federal grants finance most of these activities.
- *Business-type activities*—The County charges fees to residents to help it cover the costs of certain services it provides. The County nursing home is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant *funds*—not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and by bond covenants.

The County has two kinds of funds:

- *Governmental funds*—Most of the County's basic services are included in governmental funds, which focus on (1) how *cash* and *other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds*—Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

Financial Analysis of the County as a Whole

Net Assets. The County's net assets increased between fiscal year 2002 and 2003. The balance approximated \$6,192,000. (See Table A-1). Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Table A-1
Sullivan County's Net Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2001	2002	2001	2002	2001	2002	2001-2002
Current and other assets	\$ 5,345	\$ 10,059	\$ 980	\$ (5,079)	\$ 6,325	\$ 4,980	-21.3%
Capital assets	3,040	2,942	4,640	4,568	7,680	7,510	-2.2%
Total assets	<u>\$ 8,385</u>	<u>\$ 13,001</u>	<u>\$ 5,620</u>	<u>\$ (511)</u>	<u>\$ 14,005</u>	<u>\$ 12,490</u>	-10.8%
Long-term debt	\$ 351	\$ 395	\$ 2,209	\$ 2,194	\$ 2,560	\$ 2,589	1.1%
Other liabilities	2,741	3,647	5,031	436	7,772	4,083	-47.5%
Total liabilities	<u>\$ 3,092</u>	<u>\$ 4,042</u>	<u>\$ 7,240</u>	<u>\$ 2,630</u>	<u>\$ 10,332</u>	<u>\$ 6,672</u>	-35.4%
Net assets							
Invested in capital assets, net of related debt	\$ 2,689	\$ 2,617	\$ 2,431	\$ 2,620	\$ 5,120	\$ 5,237	2.3%
Restricted	6	6	7	7	13	13	0.0%
Unrestricted	2,598	6,336	(4,058)	(5,768)	(1,460)	568	-138.9%
Total net assets	<u>\$ 5,293</u>	<u>\$ 8,959</u>	<u>\$ (1,620)</u>	<u>\$ (3,141)</u>	<u>\$ 3,673</u>	<u>\$ 5,818</u>	58.4%

Net assets of the County's governmental activities increased 38% to \$11 million. Twenty-three percent of the total net assets at year-end are invested in capital assets (buildings, equipment, etc.). The increase in the unrestricted governmental net assets represents revenues in excess of the amounts needed to finance current expenditures and liabilities. This amount also represents amounts needed to cover the decrease in net assets of the business-type activities (the Nursing Home). The total net asset/deficit of the Nursing Home decreased 66% to \$(5,207,000). Negative net assets represents a deficit that indicates the Nursing Home has been unable to self-fund its operations and relies heavily on support from tax revenues.

In total, the government-wide net assets increased 6% to \$6,192,000. Most of this balance is invested in capital assets, net of related debt.

Changes in net assets. The County's total revenues decreased 5% from 2002 to 2003 (see Table A-2). Half of the County's revenues in 2003 came from property taxes. Another 40% was raised from charges for services at both the Nursing Home and in other governmental activities.

The total costs of all programs and services increased 4% from 2002 to 2003. The County's expenses cover a wide range of services, but 53% of expenses in fiscal year 2003 were related to providing Nursing Home services (see Figure A-4). Even with the increase in expenses in the current year, the government as a whole was able to generate enough revenue to cover expenditures. Table A-2 and the narrative that follows consider the operations of governmental and business-type activities separately.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Table A-2
Changes in Sullivan County's Net Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2002	2003	2002	2003	2002	2003	2002-2003
Revenues							
Program revenues							
Charges for services	\$ 877	\$ 978	\$ 6,696	\$ 6,871	\$ 7,573	\$ 7,849	3.6%
Federal and State grants	281	290	60	60	341	350	2.6%
Medicaid enhancement funds	-	-	485	325	485	325	-33.0%
General revenues							
Property taxes	10,884	9,841	-	-	10,884	9,841	-9.6%
Interest	71	49	-	-	71	49	-31.0%
Other	47	41	668	599	715	640	-10.5%
Total revenues	<u>12,160</u>	<u>11,199</u>	<u>7,909</u>	<u>7,855</u>	<u>20,069</u>	<u>19,054</u>	<u>-5.1%</u>
Expenses							
Commissioners	244	208	-	-	244	208	-14.8%
Public welfare	4,518	4,575	-	-	4,518	4,575	1.3%
Public safety	589	595	-	-	589	595	1.0%
Register of Deeds	329	399	-	-	329	399	21.3%
General government	398	450	-	-	398	450	13.1%
Cooperative Extension	169	176	-	-	169	176	4.1%
County Attorney	209	227	-	-	209	227	8.6%
Department of Corrections	1,928	2,104	-	-	1,928	2,104	9.1%
Interest on long-term debt	111	25	-	-	111	25	-77.5%
Nursing Home	-	-	9,431	9,922	9,431	9,922	5.2%
Total expenses	<u>8,495</u>	<u>8,759</u>	<u>9,431</u>	<u>9,922</u>	<u>17,926</u>	<u>18,681</u>	<u>4.2%</u>
Increase (decrease) in net assets	<u>\$ 3,665</u>	<u>\$ 2,440</u>	<u>\$ (1,522)</u>	<u>\$ (2,067)</u>	<u>\$ 2,143</u>	<u>\$ 373</u>	<u>-82.6%</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Figure A-3
Sullivan County, New Hampshire
Sources of Revenue for Fiscal Year 2003

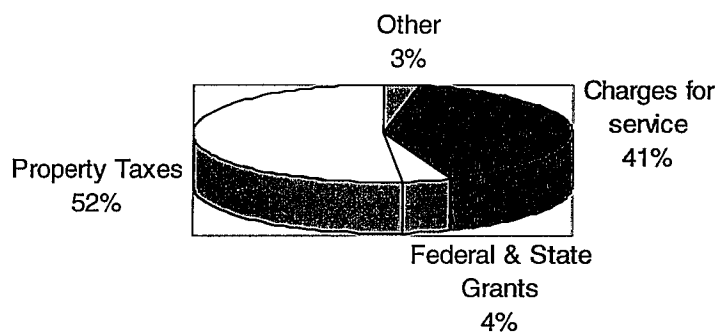
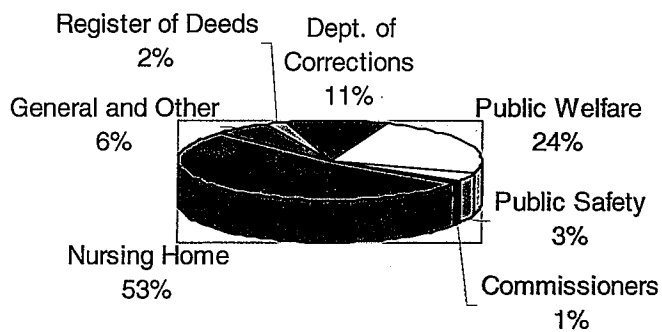


Figure A-4
Sullivan County, New Hampshire
Functional Expenses for Fiscal Year 2003



SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Governmental Activities

Revenues for the County's governmental activities decreased 8% while total expenses increased 3%. The primary decrease in revenues was a result of the recognition of the 2001 supplemental budget in the 2002 financial statements. Major initiatives within the governmental activities included:

- A 9.6% decrease in the tax rate. This decrease reduced tax revenues \$1,043,000 and they are budgeted to decrease an additional \$504,110 next year.

Table A-3 presents the cost of each of the County's four largest programs—public welfare, Department of Corrections, registry of deeds, and public safety—as well as each program's net costs (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Table A-3
Net Cost of Sullivan County's Governmental Activities
(dollars in thousands)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>
Public Welfare	\$ 4,518	\$ 4,575	1.3 %	\$ 4,345	\$ 4,397	1.2 %
Dept. of Corrections	1,928	2,104	9.1	1,829	2,027	10.8
Register of Deeds	329	399	21.3	(109)	(167)	-53.2
Public Safety	589	594	0.8	141	148	5.0
Total	\$ 7,364	\$ 7,672	4.2 %	\$ 6,206	\$ 6,405	3.2 %

Business-Type Activities

Revenues of the County's business-type activities remained flat while expenses increased 5 percent to \$7.9 million and \$9.9 million, respectively. (Refer to Table A-2). Factors contributing to these results included:

- Medicaid rates fluctuated throughout the year, starting at \$124.42 on July 1, 2002 and ending at \$124.50 on June 30, 2003.
- The annual census remained consistent throughout the year, with the average census approximating 90%.
- The Nursing Home will be concentrating on the Medicare market this upcoming year. The County is anticipating an increase in Medicare revenue of approximately \$230,000.
- The Current Bargaining Agreement expired on June 30, 2003. Management is currently negotiating a new agreement with the Bargaining Unit. Until a new agreement is reached, the conditions of the expired agreement will be in effect.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Financial Analysis of the County's Funds

County's Budgetary Highlights

Over the course of the year, the County Commissioners and delegation revised the budget several times. These budget amendments fall into two main categories:

- Amendments to individual line items to re-appropriate funds within programs.
- Amendments to individual line items to re-appropriate funds between programs.

At the end of the year, actual revenues had exceeded expenditures by \$1,057,908 for a positive revenue budget variance of \$401,265. The Registry of Deeds experienced an increase in the amount of fees collected which helped that program create a positive revenue variance of \$215,626. The General Fund also has a positive revenue variance, mostly as a result of the prior year surplus.

Expenditures in total were below budget. Within the General Fund, the most notable positive expense variances resulted in the public welfare, county jail, and County attorney departments, as well as the debt service interest line item.

The total County surplus may be available to provide support to the Nursing Home which had a negative budget variance of \$(96,183) for the year, and continues to operate at a loss.

Revenues and expenses recorded on a budgetary basis vary from those recorded in accordance with generally accepted accounting principles due to differences in recording transactions based on the matching of revenues and appropriations to the budget, or matching revenues and expenses to specific occurrence of events for accrual accounting.

The County's change in general fund balance differs from the change in general fund budgetary fund balance reported in the budgetary comparison schedule principally because the change in budgetary fund balance excludes:

- Encumbrances of \$57,356 reported as expenditures for budgetary purposes
- Prior year's surplus of \$967,552 recorded as revenue for budgetary purposes

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

During 2003, the County invested approximately \$314,000 in a range of capital assets, including general and sheriff's equipment, Department of Correction's building improvements, and Nursing Home equipment. (See Table A-4). This amount represents a net decrease in capital spending of \$72,000 or 19% from last year.

Table A-4
Sullivan County's Capital Assets
(net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2002-2003
	2002	2003	2002	2003	2002	2003	
Building and improvements	\$ 2,634	\$ 2,577	\$ 4,386	\$ 4,205	\$ 7,020	\$ 6,782	(3.39) %
Equipment and vehicles	308	287	182	190	490	477	2.65
Total	<u>\$ 2,942</u>	<u>\$ 2,864</u>	<u>\$ 4,568</u>	<u>\$ 4,395</u>	<u>\$ 7,510</u>	<u>\$ 7,259</u>	<u>(3.34) %</u>

The County's fiscal year 2004 capital budget projects spending \$209,859 for capital projects and \$220,000 on a newly funded Capital Reserve Fund.

Long-Term Debt

At year-end, the County had \$1,669,726 in bonds, notes, and capital lease obligations outstanding, a decrease of 25% over last year – as shown in Table A-5. More detailed information on the County's long-term liabilities is presented in Note 5 to the financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management's Discussion and Analysis

Table A-5
Sullivan County's Outstanding Debt
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2002	2003	2002	2003	2002	2003	2002-2003
General obligation bonds	\$ -	\$ -	\$ 760	\$ 570	\$ 760	\$ 570	(25) %
Notes payable	277	209	1,181	891	1,458	1,100	(25)
Capital lease obligations	30	-	7	-	37	-	(100)
Total	<u>\$ 307</u>	<u>\$ 209</u>	<u>\$ 1,948</u>	<u>\$ 1,461</u>	<u>\$ 2,255</u>	<u>\$ 1,670</u>	<u>(26) %</u>

Economic Factors and Next Year's Budgets and Rates

The above indicators were taken into account when adopting the General Fund budget for 2004. Amounts available for appropriation in the General Fund budget are \$8,797,895, an increase of \$474,992 over the final 2003 budget. Property taxes (\$9,336,760) (benefiting from the 2003 rate increases and increases in assessed valuations), charges for fees and services (\$11,046,876), and grant revenue (\$750,293) are expected to lead the increase. The County will use these increases to finance programs we currently offer.

Budgeted expenditures are expected to rise 7 percent to \$21,174,490. The largest increments are increased wages and cost-of-living adjustments of 3 percent pending on agreement with the union. There are no major new programs or initiatives included in the 2004 budget.

If these estimates are realized, the County's net assets will remain level.

As for the County's business-type activities, we expect that the 2004 results will increase.

The Nursing Home increased private pay rates by \$10 to \$180.00 per day for a semi-private room and \$195.00 per day for private rooms.

Effective August 1, 2003, Medicaid reimbursement rates increased from \$124.50 to \$124.64 per day.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sullivan County Commissioners Office, 14 Main Street, Newport, NH 03773 or email sucomm@sugar.river.net.



CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Commissioners
Sullivan County, New Hampshire

We have audited the accompanying financial statements of the governmental activities and the business-type activities, each major fund, and the aggregate remaining fund information of Sullivan County, New Hampshire (County) as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sullivan County, New Hampshire, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Losses incurred by the business-type activities and the resulting deficit of fund balances are supported by tax revenues of the governmental activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2003 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berry, Dunn, McNeil & Parker

Lebanon, New Hampshire
August 4, 2003

SULLIVAN COUNTY, NEW HAMPSHIRE

Statement of Net Assets

June 30, 2003

ASSETS

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Cash	\$ 2,098,121	\$ 200	\$ 2,098,321
Accounts receivable, less allowances for doubtful accounts and contractals of \$150,297	-	752,933	752,933
Internal balances	8,223,788	(8,223,788)	-
Due from other governments	7,331	-	7,331
Other receivables	23,840	-	23,840
Inventories and prepaid expenses	150,860	34,558	185,418
Restricted assets, cash	221,765	109,708	331,473
Capital assets, net (Note 3)	<u>2,864,282</u>	<u>4,395,454</u>	<u>7,259,736</u>
Total assets	\$ <u>13,589,987</u>	\$ <u>(2,930,935)</u>	\$ <u>10,659,052</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Accounts payable	\$ 237,769	\$ 258,466	\$ 496,235
Accrued liabilities	1,358,541	208,637	1,567,178
Due to other governments	298,475	-	298,475
Due to residents	-	102,603	102,603
Long-term liabilities (Note 5)			
Due within one year	156,486	729,424	885,910
Due in more than one year	<u>140,119</u>	<u>977,350</u>	<u>1,117,469</u>
Total liabilities	<u>2,191,390</u>	<u>2,276,480</u>	<u>4,467,870</u>
Commitment (Note 8)			
Net assets (deficit)			
Invested in capital assets, net of related debt	2,655,334	2,934,676	5,590,010
Restricted			
Expendable	6,572	3,032	9,604
Nonexpendable	-	4,073	4,073
Unrestricted (deficit)	<u>8,736,691</u>	<u>(8,149,196)</u>	<u>587,495</u>
Total net assets (deficit)	<u>11,398,597</u>	<u>(5,207,415)</u>	<u>6,191,182</u>
	\$ <u>13,589,987</u>	\$ <u>(2,930,935)</u>	\$ <u>10,659,052</u>

The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Statement of Activities

Year Ended June 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Government activities							
Public welfare	\$ 4,574,873	\$ -	\$ 177,741	\$ -	\$ (4,397,132)	\$ -	\$ (4,397,132)
Department of Corrections	2,104,413	63,503	-	14,115	(2,026,795)	-	(2,026,795)
Public safety	594,760	348,608	97,732	-	(148,420)	-	(148,420)
General government	450,092	-	-	-	(450,092)	-	(450,092)
Registry of Deeds	398,556	565,626	-	-	167,070	-	167,070
Commissioner's office	208,258	-	-	-	(208,258)	-	(208,258)
County attorney	226,766	-	-	-	(226,766)	-	(226,766)
Cooperative extension service	175,524	-	-	-	(175,524)	-	(175,524)
Interest on long-term liabilities	25,133	-	-	-	(25,133)	-	(25,133)
Total governmental activities	8,758,375	977,737	275,473	14,115	(7,491,050)	-	(7,491,050)
Business-type activities							
Nursing home services	9,921,527	7,398,340	324,971	60,173	-	(2,138,043)	(2,138,043)
Total primary government	\$ 18,679,902	\$ 8,376,077	\$ 600,444	\$ 74,288	(7,491,050)	(2,138,043)	(9,629,093)
General revenues							
Property taxes, levied for general purposes					9,840,870	-	9,840,870
Interest income					49,476	-	49,476
Miscellaneous					40,819	71,663	112,482
Total general revenues					9,931,165	71,663	10,002,828
Change in net assets (deficit)					2,440,115	(2,066,380)	373,735
Net assets (deficit), beginning of year					8,958,482	(3,141,035)	5,817,447
Net assets (deficit), end of year					\$ 11,398,597	\$ (5,207,415)	\$ 6,191,182

Interest expense included in the direct Nursing Home services expense amounts to \$49,373.

The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Balance Sheet - Governmental Funds

June 30, 2003

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Cash	\$ 1,733,852	\$ 357,697	\$ 2,091,549
Internal balances	7,647,356	576,432	8,223,788
Due from other governments	7,331	-	7,331
Other receivables	-	23,840	23,840
Prepaid expenses	150,860	-	150,860
Restricted assets – cash	<u>221,765</u>	<u>-</u>	<u>221,765</u>
 Total assets	 \$ <u>9,761,164</u>	 \$ <u>957,969</u>	 \$ <u>10,719,133</u>

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts payable	\$ 237,073	\$ 696	\$ 237,769
Accrued liabilities	1,355,664	2,877	1,358,541
Due to other governments	<u>-</u>	<u>298,475</u>	<u>298,475</u>
Total liabilities	<u>1,592,737</u>	<u>302,048</u>	<u>1,894,785</u>
 Commitment (Note 8)			
Fund balances			
Reserved for prepaid expenses	150,860	-	150,860
Reserved for encumbrances	61,403	-	61,403
Unreserved – undesignated	<u>7,956,164</u>	<u>655,921</u>	<u>8,612,085</u>
Total fund balances	<u>8,168,427</u>	<u>655,921</u>	<u>8,824,348</u>
 Total liabilities and fund balances	 \$ <u>9,761,164</u>	 \$ <u>957,969</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Expendable trust funds without a legally adopted budget are not included here	6,572
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,864,282
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(296,605)</u>

Net assets of governmental activities	\$ <u>11,398,597</u>
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The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2003

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Revenues			
Taxes	\$ 9,840,870	\$ -	\$ 9,840,870
Fines and fees	51,870	565,626	617,496
Grant revenue	41,115	97,732	138,847
Charges for products and services	90,804	-	90,804
Intergovernmental	421,336	-	421,336
Interest	49,441	-	49,441
Miscellaneous	33,757	-	33,757
Total revenues	<u>10,529,193</u>	<u>663,358</u>	<u>11,192,551</u>
Expenditures			
Current			
Cooperative extension service	171,727	-	171,727
General government	389,620	-	389,620
Registry of Deeds	-	396,160	396,160
County attorney	220,276	-	220,276
Public safety	462,099	-	462,099
Department of Corrections	2,005,869	-	2,005,869
Health and welfare	4,573,421	-	4,573,421
Grant expenditures	-	95,568	95,568
Commissioners' office	182,868	-	182,868
Capital outlay	150,235	2,839	153,074
Debt service			
Principal retirement	98,272	-	98,272
Interest and fiscal charges	25,133	-	25,133
Total expenditures	<u>8,279,520</u>	<u>494,567</u>	<u>8,774,087</u>
Net change in fund balances	2,249,673	168,791	2,418,464
Fund balances, beginning of year	<u>5,918,754</u>	<u>487,130</u>	<u>6,405,884</u>
Fund balances, end of year	\$ <u>8,168,427</u>	\$ <u>655,921</u>	\$ <u>8,824,348</u>

The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances

of Governmental Funds to the Statement of Activities

Year Ended June 30, 2003

Net change in fund balances – total governmental funds	\$ 2,418,464
Amounts reported for governmental activities in the statement of activities different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$230,840) exceeded capital outlays (\$153,074) in the current period	(77,766)
Repayments of notes and leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	98,272
Change in non-expendable trusts not included in budgetary accounting	<u>1,145</u>
Change in net assets of governmental activities	\$ <u>2,440,115</u>

The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Balance Sheet – Proprietary Fund

June 30, 2003

ASSETS

	<u>Enterprise Fund</u> <u>Nursing Home</u>
Current assets	
Cash	\$ 200
Accounts receivable, less contractual allowances and allowance for doubtful accounts of \$150,297	752,933
Inventory	<u>34,558</u>
Total current assets	<u>787,691</u>
Noncurrent assets	
Restricted assets – cash	109,708
Buildings and improvements	7,559,165
Equipment	1,806,889
Accumulated depreciation	<u>(4,970,600)</u>
Total noncurrent assets	<u>4,505,162</u>
Total assets	\$ <u>5,292,853</u>

LIABILITIES AND NET DEFICIT

Current liabilities	
Accounts payable	\$ 258,466
Accrued liabilities	208,637
Compensated absences payable	245,996
Internal balances	8,223,788
Bonds, notes, and leases payable	<u>483,428</u>
Total current liabilities	<u>9,420,315</u>
Noncurrent liabilities	
Due to residents	102,603
Bonds, notes, and leases payable	<u>977,350</u>
Total noncurrent liabilities	<u>1,079,953</u>
Total liabilities	<u>10,500,268</u>
Commitment (Note 8)	
Net assets (deficit)	
Invested in capital assets, net of related debt	2,934,676
Restricted	
Nonexpendable	4,073
Expendable	3,032
Unrestricted	<u>(8,149,196)</u>
Total net deficit	<u>(5,207,415)</u>
Total liabilities and net deficit	\$ <u>5,292,853</u>

The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Statement of Revenues, Expenses, and Changes in Net Deficit - Proprietary Fund

Year Ended June 30, 2003

	<u>Enterprise Fund</u> <u>Nursing Home</u>
Operating revenues	
Charges for services – state welfare	\$ 5,680,150
– federal support, net of contractual allowances of \$159,900	355,549
– private	835,040
Medicaid enhancement funds	324,971
Meals reimbursement	401,919
Miscellaneous	197,345
Total operating revenues	<u>7,794,974</u>
Operating expenses	
Personnel services	5,504,402
Contractual services	747,412
Therapy services	138,843
Supplies and office expenses	129,751
Medical expenses	31,869
Utilities	271,258
Depreciation	333,685
Payroll and other taxes	424,680
Food	433,827
Repairs and maintenance	95,912
Employee benefits	1,372,381
Bad debts	102,918
Telephone	16,312
Miscellaneous	10,670
Insurance	66,770
Medicine	191,464
Total operating expenses	<u>9,872,154</u>
Operating loss	(2,077,180)
Interest expense	(49,373)
Grant revenue	<u>60,173</u>
Change in net deficit	(2,066,380)
Net deficit, beginning of year	<u>(3,141,035)</u>
Net deficit, end of year	\$ <u>(5,207,415)</u>

The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Statement of Cash Flows – Proprietary Fund

Year Ended June 30, 2003

	<u>Enterprise Fund</u> <u>Nursing Home</u>
Cash flows from operating activities	
Receipts from other funds	\$ 2,320,805
Receipts from customers	6,707,293
Receipts from interfund services provided	436,044
Payments to suppliers	(2,437,602)
Payments to employees	(6,876,783)
Other receipts from State	324,971
Other receipts	<u>163,140</u>
Net cash provided by operating activities	<u>637,868</u>
Cash flows from capital and related financing activities	
Purchases of capital assets	(161,362)
Principal paid on capital debt	(487,306)
Capital contributions	60,173
Payments for interest	<u>(49,373)</u>
Net cash used by capital and related financing activities	<u>(637,868)</u>
Net increase in cash	-
Cash, beginning of year	<u>200</u>
Cash, end of year	\$ <u><u>200</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (2,077,180)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation expense	333,685
Bad debt expense	102,918
Increase in	
Accounts receivable	(163,446)
Restricted cash	(12,602)
Increase in	
Accounts payable	101,166
Accrued liabilities	20,000
Due to residents	12,522
Due to other funds	<u>2,320,805</u>
Net cash provided by operating activities	\$ <u><u>637,868</u></u>

The accompanying notes are an integral part of these basic financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies

Sullivan County, New Hampshire (the County) was established in 1827 and operates under a County Commissioner/Delegation form of government. The County is responsible for the following facilities and services, as authorized by its charter: sheriff's department, nursing home, correctional facility, county farm and woodlands, registry of deeds, and general administrative services for the County.

The accounting policies of the County, as reflected in the accompanying basic financial statements, conform to generally accepted accounting principles applicable to governmental units. The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For Enterprise Funds, GASB Statement Nos. 20 and 34 provide the County the option of electing to apply FASB pronouncements issued after November 30, 1989. The County has elected not to apply those pronouncements. The more significant policies are discussed in subsequent subsections of this note.

A. Reporting Entity

Specific criteria are used in the determination of which funds are included in the basic financial statements of the County and in the definition of the County as a separate reporting entity from any other unit of government. These criteria are: (1) oversight responsibility, which addresses the extent of the governing authority of elected officials, (2) scope of public service, which addresses the type of services provided in the geographic service area, and (3) the existence of any special financing relationships which exist between the County and other entities. Based on these criteria, there are no agencies or entities which should be combined with the basic financial statements of the County.

B. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the County as a whole. They include all funds of the County except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Concluded)

Fund Financial Statements

Fund financial statements of the County are organized on a fund basis, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance (deficit), revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the basic financial statements in this report, into two broad fund categories and four generic fund types, as follows:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the County. It is used to account for all financial resources, except those legally or administratively required to be accounted for in other funds.

Other Governmental Fund

Other Governmental Fund consists of the Special Revenue Fund which is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified services.

Proprietary Fund

Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. As such, they are intended to be financed primarily through proceeds from their operations. The Enterprise Fund of the County consists of the Sullivan County Nursing Home (County Home).

The Enterprise Fund includes the Permanent Fund which is used to account for assets that have been designated by the contributor to be held in perpetuity, the income of which is to be used to support Enterprise Fund programs.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied.

In the government-wide statement of net assets and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus.

In the fund financial statements, the Governmental Funds utilize a current financial resources focus whereas the Proprietary Fund uses the economic resources measurement focus.

Economic Resources Focus

The accounting objectives of this focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with Fund activities are reported. Fund equity is classified as net assets.

Current Financial Resources

Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances presents sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statement of net assets and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Concluded)

Basis of Accounting (Concluded)

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. County Budget and Budgetary Accounting

The County budgets revenues and expenditures/expenses for Governmental and Proprietary Funds. The County prepares its annual budget on a basis which is different from U.S. generally accepted accounting principles (GAAP basis). To provide a meaningful comparison of actual results with the budget, the Budgetary Comparison Schedules included in Schedules 1 and 4 are presented in accordance with the County's budget (budget basis). The major differences between the budget and GAAP bases are as follows:

- The budget recognizes as revenues (expenditures) surplus (deficits in) unrestricted funds brought forward from prior periods. GAAP records prior year surplus (deficit) in fund balances brought forward.
- The budget expenses outlays for supplies and inventory of the Enterprise Fund when purchased. GAAP expenses these items when consumed.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Continued)

E. County Budget and Budgetary Accounting (Continued)

- The budget expenses outlays for capital additions. GAAP capitalizes these outlays.
- The budget does not provide for depreciation of fixed assets. GAAP provides for depreciation of these assets.
- The budget expenses compensated absences when paid. GAAP expenses compensated absences when earned by employees.
- The budget recognizes proceeds from debt issuance as revenue and payments on debt and capital lease obligations as expenditures. For GAAP purposes, proceeds and payments on these obligations are recorded as increases and decreases in liabilities, as appropriate.
- The budget records cash received on sale of assets as revenue. GAAP records a gain or loss based on the cash, cost, and accumulated depreciation at the time of sale.
- The budget records expenditures for commitments to acquire goods or services not yet received. For GAAP purposes, these amounts are recorded as encumbrances (reserved fund balance).

Budgets

The County follows the following procedures establishing the budgetary data reflected in the general purpose financial statements:

Prior to May 1st, the County departments submit to the County Commissioners a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

Hearings are conducted by the County Commissioners prior to the County's budget meeting to discuss the proposed budget.

The budget is legally enacted by the County Delegation prior to September 1st.

Appropriations for certain projects and specific items not fully expended at the fiscal year-end are carried forward as continued appropriations to the new fiscal year in which they supplement the appropriations of that year.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Continued)

E. County Budget and Budgetary Accounting (Concluded)

The budgets for all departments and operations of the County are prepared under the direction of the County Commissioners. Original appropriations are acted upon by the County Delegation vote.

A copy of the budget is published in the Annual Report of Sullivan County, New Hampshire.

In summary form, the approved budgets for the General, Other Governmental, and Proprietary Funds for the year ended June 30, 2003 were as follows:

Budgeted revenue	\$ 19,613,985
Budgeted expenditures	<u>19,613,985</u>
Budgeted surplus	\$ <u> -</u>

F. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Continued)

G. Fund Balances

Fund balances of Governmental and Proprietary Funds are classified in three separate categories. The categories, if applicable, and their general meanings are as follows:

Reserved Fund Balance

Indicates that portion of fund equity which is generally not appropriable for expenditure or is legally segregated for specific purposes. Reserved fund balance is used to fund certain appropriations only after unreserved funds are depleted.

Unreserved – Designated Fund Balance

Indicates that portion of fund equity for which the County has made tentative plans.

Unreserved – Undesignated Fund Balance

Indicates that portion of fund equity which is available for appropriation and expenditure in future periods.

H. Revenues

Operating Revenues

Operating revenues in the Proprietary Fund are those that result from providing services. It also includes all revenue not related to capital and related financing, noncapital financing, or investing activities.

Grants

Revenues from federal, state, and other grants, designated for payment of specific County expenditures, are recognized in the governmental activities when the related expenditures are incurred.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Continued)

H. Revenues (Concluded)

Property Taxes

Taxes are levied annually and are due by the first business day following December 17. After such date, interest is accrued until the date of payment. The County bills and collects the property taxes from each town within the County. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable after the 60-day period, no additional accrual is made in the government-wide financial statements.

I. Compensated Absences

The County has an earned time program, combining traditional vacation, personal, holiday, and sick time benefits into one bank of earned time hours. Consequently, earned time, up to the maximum as specified by the program, is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

J. Inventory

Only the Enterprise Fund records inventory which consists of linen and supplies. Inventory is recorded at cost.

K. Internal Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. The amounts have been eliminated in the statement of net assets.

L. Restricted Cash

Restricted cash in the statement of net assets represents amounts that are not available for general use of the County.

The business-type activity funds represent amounts held on behalf of residents and restricted trust funds, income of which is to be used for specific activities at the Nursing Home.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

1. Summary of Significant Accounting Policies (Concluded)

L. Restricted Cash (Concluded)

Within the governmental activity funds, restricted cash represents funds set aside to pay health coverage costs.

2. Cash

The cash deposits in the County's Funds, including restricted cash, at year-end consisted of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured, collateralized by U.S. Government and other short-term securities	1,905,950	1,849,270
Uninsured, no collateral held	<u>322,869</u>	<u>820,281</u>
	<u>\$ 2,428,819</u>	<u>\$ 2,869,551</u>

The above amount does not include petty cash funds of \$975.

3. Capital Assets

The changes in capital assets were as follows:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>
Governmental activities				
Capital assets				
Land improvements	\$ 359,986	\$ -	\$ -	\$ 359,986
Building and improvements	3,835,683	89,010	-	3,924,693
Equipment and vehicles	<u>921,528</u>	<u>64,064</u>	-	<u>985,592</u>
	<u>5,117,197</u>	<u>153,074</u>	-	<u>5,270,271</u>
Less accumulated depreciation				
Land improvements	17,999	17,999	-	35,998
Buildings and improvements	1,543,528	127,842	-	1,671,370
Equipment and vehicles	<u>613,622</u>	<u>84,999</u>	-	<u>698,621</u>
Total accumulated depreciation	<u>2,175,149</u>	<u>230,840</u>	-	<u>2,405,989</u>
Governmental activities capital assets, net	<u>\$ 2,942,048</u>	<u>\$ (77,766)</u>	<u>\$ -</u>	<u>\$ 2,864,282</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

3. Capital Assets (Concluded)

Depreciation expense was charged to governmental activities as follows:

Governmental activities	
Registry of Deeds	\$ 2,396
Public safety/sheriff's department	37,093
Public welfare	1,452
County attorney	6,490
Department of Corrections	112,576
Commissioner's office	11,358
Cooperative extension service	3,797
General government	55,678

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Business-type activities				
Capital assets				
Buildings and improvements	\$ 7,480,610	\$ 78,555	\$ -	\$ 7,559,165
Equipment	1,617,440	82,807	-	1,700,247
Vehicles	<u>106,642</u>	<u>-</u>	<u>-</u>	<u>106,642</u>
Total other capital assets at historical cost	<u>9,204,692</u>	<u>161,362</u>	<u>-</u>	<u>9,366,054</u>
Less accumulated depreciation for				
Buildings and improvements	3,094,556	260,008	-	3,354,564
Equipment	1,451,327	60,855	-	1,512,182
Vehicles	<u>91,032</u>	<u>12,822</u>	<u>-</u>	<u>103,854</u>
Total accumulated depreciation	<u>4,636,915</u>	<u>333,685</u>	<u>-</u>	<u>4,970,600</u>
Business-type activities capital assets, net	\$ <u>4,567,777</u>	\$ <u>(172,323)</u>	\$ <u>-</u>	\$ <u>4,395,454</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

4. Short-Term Debt

The County issues tax anticipation notes in advance of County tax collections, depositing the proceeds in its General Fund. These notes are necessary because the County begins to incur operating expenses prior to the December 17 due date.

Short-term debt activity for the year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax anticipation notes	\$ -	\$ 3,000,000	\$ (3,000,000)	\$ -

5. Changes in Long-Term Debt

Long-term liability activity for the year ended June 30, 2003 was as follows:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2003</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Notes and leases payable					
Uncollateralized revolving fund sewer project loan, proceeds paid throughout the project. Payments of \$71,250 due annually through 2006, including interest at 1.19%	\$ 276,969	\$ -	\$ 68,021	\$ 208,948	\$ 68,829
Capital lease – sheriff's department	23,789	-	23,789	-	-
Capital lease – cargo van	<u>6,462</u>	<u>-</u>	<u>6,462</u>	<u>-</u>	<u>-</u>
Total notes and leases payable	307,220	-	98,272	208,948	68,829
Other liabilities					
Compensated absences payable	<u>87,657</u>	<u>123,951</u>	<u>123,951</u>	<u>87,657</u>	<u>87,657</u>
Governmental activities long-term liabilities	\$ <u>394,877</u>	\$ <u>123,951</u>	\$ <u>222,223</u>	\$ <u>296,605</u>	\$ <u>156,486</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

5. Changes in Long-Term Debt (Continued)

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Business-type activities					
Bonds, notes, and leases payable					
\$1,900,000 capital improvement bond (issue date July 20, 1995), principal due in annual installments of \$190,000 through 2006. Interest is payable semiannually at 5.25%	\$ 760,000	\$ -	\$ 190,000	\$ 570,000	\$ 190,000
Uncollateralized revolving fund sewer project loan, proceeds paid throughout the project. Payments of \$ 303,750 due annually through 2006, including interest at 1.19%	1,180,764	-	289,986	890,778	293,428
Capital lease – club wagon	<u>7,320</u>	<u>-</u>	<u>7,320</u>	<u>-</u>	<u>-</u>
Total bonds, notes, and leases payable	1,948,084	-	487,306	1,460,778	483,428
Other liabilities					
Compensated absences	<u>245,996</u>	<u>350,041</u>	<u>350,041</u>	<u>245,996</u>	<u>245,996</u>
	<u>\$ 2,194,080</u>	<u>\$ 350,041</u>	<u>\$ 837,347</u>	<u>\$ 1,706,774</u>	<u>\$ 729,424</u>

The capital improvement bonds are backed by the full faith and credit of Sullivan County.

Debt service requirements as of June 30, 2003 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>			
	<u>Sewer Project</u>		<u>Capital Improvement Bond – Nursing Home</u>		<u>Sewer Project</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 68,829	\$ 2,481	\$ 190,000	\$ 24,938	\$ 293,428	\$ 10,578
2005	69,646	1,664	190,000	14,963	296,913	7,093
2006	<u>70,473</u>	<u>837</u>	<u>190,000</u>	<u>4,988</u>	<u>300,437</u>	<u>3,568</u>
	<u>\$ 208,948</u>	<u>\$ 4,982</u>	<u>\$ 570,000</u>	<u>\$ 44,889</u>	<u>\$ 890,778</u>	<u>\$ 21,239</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

5. Changes in Long-Term Debt (Concluded)

Assets related to the County's capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Cost included in vehicles	\$ 118,100	\$ 34,650
Accumulated depreciation	<u>(70,860)</u>	<u>(34,650)</u>
Net book value	\$ <u>47,240</u>	\$ <u>-</u>

In July 2003, the County entered into a capital lease for nine vehicles. The additional lease liability approximates \$193,000 (including interest of \$19,600) and is due in annual payments of \$39,000 through July 2007.

Operating Leases

The County has entered into a number of operating leases which contain cancellation provisions and are subject to annual appropriations. For the year ended June 30, 2003, rent expenditures approximated \$6,600 for all types of leases. These expenditures were made primarily from the General and Proprietary Funds.

6. Interfund Receivables and Payables

Interfund receivables and payables have been recorded in the statement of activities for amounts due between funds. Because operating cash is held by the General Fund, all accounts payable and receivable transactions have been recorded in that Fund, as well as transactions resulting from charges for services. The County does not segregate balances due to or from each fund; therefore, detail has not been provided here.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

7. Taxes

Taxes were received from each of the following municipalities in the proportionate share as determined by the New Hampshire Department of Revenue Administration based on an equalized assessed valuation:

<u>Municipality</u>	<u>Percentage</u>	<u>Amount</u>
Acworth	1.9%	\$ 188,523
Charlestown	6.8	667,930
Claremont	20.7	2,034,126
Cornish	3.5	347,102
Croydon	1.6	157,922
Goshen	1.5	150,697
Grantham	11.8	1,159,996
Langdon	1.3	132,217
Lempster	1.9	181,581
Newport	10.3	1,012,704
Plainfield	6.4	626,126
Springfield	3.8	377,207
Sunapee	21.8	2,149,737
Unity	2.5	240,618
Washington	4.2	414,384
	<u>100.0%</u>	\$ <u>9,840,870</u>

8. Retirement System

Plan Description

The County contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer contributory defined benefit pension plan. NHRS provides service, disability, death, and vested retirement benefits to plan members and beneficiaries. NHRS is administered by a 13-member Board of Trustees. The Board of Trustees formulates administrative policies and procedures and authorizes benefit payments to members and their beneficiaries. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New Hampshire Retirement System, 4 Chenell Drive, Concord, NH 03301-8509 or by calling (603) 271-3351.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

8. Retirement System (Concluded)

Funding Policy

Sheriff's deputies and correctional office plan members and all other employee plan members are required to contribute 9.3% and 5%, respectively, of their annual covered salary and the County is required to contribute at an actuarially determined rate. The current rate for sheriff's deputies and correctional officers is 7.87% of annual covered payroll. The current rate for all other employees is 5.90% of annual covered payroll. The contribution requirements of plan members are fixed by statute. The County's contributions to NHRS for the years ended June 30, 2003, 2002, and 2001 were \$235,980, \$225,751, and \$220,186, respectively, equal to the required contributions for each year.

9. Significant Concentration

Approximately 76% of the residents of the Sullivan County Nursing Home served during 2003 were beneficiaries of the New Hampshire Medicaid program. Under this program, the provider is reimbursed for the care of qualified residents at specified interim contractual rates during the year.

Effective February 1, 1999, the New Hampshire Department of Health and Human Services implemented an acuity-based nursing facility reimbursement system. Providers of services to nursing care residents eligible for Medicaid benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on each facility's acuity and allowable cost incurred for its fiscal year ended in 2000. Base year allowable costs are subject to certain rate setting cost containment provisions of the New Hampshire Acuity-Based Nursing Facility Reimbursement Systems.

Effective September 15, 2002, the County Home enrolled as a certified facility for Medicare purposes. This certification allowed the County Home to be reimbursed for services to Medicare beneficiaries. Services provided to Medicare beneficiaries are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on the scoring attributed to the acuity level of the resident at a rate determined by federal guidelines.

The mix of revenues from residents and third-party payors for the year ended June 30, 2003 was as follows:

Medicaid	76%
Private	11
Medicare	5
Other	<u>8</u>
	<u>100%</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Basic Financial Statements

June 30, 2003

9. Significant Concentration (Concluded)

Due to the large concentration of residents who receive benefits from the Medicaid reimbursement program, the County is highly dependent upon regulatory authorities' establishing reimbursement rates that are adequate to sustain the Sullivan County Nursing Home's operations.

10. Risk Management

The County is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County and other municipalities and other qualified political subdivisions of New Hampshire are members of the Public Risk Management Exchange (Primex³), a Trust organized to provide property and liability insurance coverage to its members. The County pays an annual premium to Primex³ for its property and liability insurance coverage. The premium paid in 2003 was \$95,100.

The coverage includes a retrospective contribution endorsement under which the County may receive a portion of its premiums back based on a loss ratio as defined in the agreement.

11. Accrual for Self-funded Insurance

The County participates in the New Hampshire Municipal Association Health Insurance Trust Self-Funding Plus Program (Program) which provides medical health benefits to its eligible employees and their eligible dependents. The Program is self-funded and amounts collected from premiums, net of claims paid on behalf of participants, are maintained in a separate cash account and are reflected on the balance sheet as general fund "restricted cash". Claims relating to the year ended June 30, 2003, which have not been paid, have been recorded as a liability as of June 30, 2003. The County is insured above a stop-loss amount of approximately \$257,000 on individual and aggregate claims as of June 30, 2003.

Charges to appropriations (outflows)						
General government						
Commissioners' office	175,254	175,418	187,377	(11,959)	-	-
Treasurer	92,447	92,297	86,164	6,133	-	-
Auditors	25,000	25,000	25,000	-	-	-
5% monies	150,781	150,781	150,781	-	-	-
Payroll	64,863	64,907	64,302	605	-	-
Conservation district clerk	42,782	42,830	43,225	(395)	-	-
County attorney	229,376	235,376	220,276	15,100	-	-
Victim witness	49,137	49,197	48,612	585	-	-
Registry of Deeds	-	-	-	385,428	390,163	391,739
Cooperative extension service	175,300	175,300	171,727	3,573	-	(1,576)
Sheriff's department	335,410	335,410	329,670	5,740	-	-
Deputy sheriff's bailiffs	62,809	62,809	57,254	5,555	-	-
Medical referee	16,500	16,500	21,660	(5,160)	-	-
Woodhull County complex	52,766	52,218	52,214	4	-	-
Maintenance of courthouse	97,964	97,964	98,267	(303)	-	-
Public welfare	4,332,634	4,332,781	4,239,318	93,463	-	-
Sheriff's grants	-	-	-	100,858	100,858	98,407
County jail	2,061,271	2,066,770	1,974,381	92,389	-	2,451
County farm and woodlands	14,062	14,062	13,450	612	-	-
County grants	170,672	170,672	170,672	-	-	-
Debt service						
Interest	103,438	97,438	25,133	72,305	-	-
Principal - bonded debt	101,356	101,356	98,272	3,084	-	-
Delegation expenses	3,000	3,000	2,118	882	-	-
Emergency funds	25,000	25,000	-	25,000	-	-
Capital outlay	127,486	127,486	142,291	(14,805)	-	-
Total expenditures/expenses	8,509,308	8,514,572	8,222,164	292,408	491,021	490,146
				486,286		875
Excess of resources over (under) expenditures						
	2,339,139	2,333,875	3,274,581	940,706	(40,173)	213,385
Budgetary fund balance, June 30						
	\$ 7,622,952	\$ 7,659,041	\$ 9,146,605	\$ 1,487,564	\$ 255,992	\$ 389,225

See accompanying note to budgetary comparison schedules.

SULLIVAN COUNTY, NEW HAMPSHIRE

Schedule 1
(Concluded)

Note to Budgetary Comparison Schedules

Year Ended June 30, 2003

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with GAAP follows:

	General <u>Fund</u>	Other Governmental <u>Fund</u>	<u>Total</u>
Excess of revenues over expenditures – budget basis	\$ 3,274,581	\$ 173,212	\$ 3,447,793
Prior year surplus is a budgetary resource but is not revenue for financial reporting purposes	(967,552)	-	(967,552)
Encumbrances for supplies and services ordered but not received are reported in the year the order is placed for budgetary purposes, and in the year the supplies are received for financial reporting purposes	<u>(57,356)</u>	<u>(4,421)</u>	<u>(61,777)</u>
Excess of revenues over expenditures – modified accrual basis	\$ <u>2,249,673</u>	\$ <u>168,791</u>	\$ <u>2,418,464</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Schedule 2

Combining Statement of Net Assets – Other Governmental Funds

June 30, 2003

	Expendable Trust Fund	Registry of Deeds	Sheriff's Grants	Total
ASSETS				
Cash	\$ 6,572	\$ 357,697	\$ -	\$ 364,269
Internal balances	-	598,060	-	598,060
Other receivables	-	-	23,840	23,840
Capital assets, net	-	<u>12,065</u>	<u>4,648</u>	<u>16,713</u>
Total assets	\$ <u>6,572</u>	\$ <u>967,822</u>	\$ <u>28,488</u>	\$ <u>1,002,882</u>
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable	\$ -	\$ 696	\$ -	\$ 696
Due to other governments	-	298,475	-	298,475
Internal balances	-	-	21,628	21,628
Accrued liabilities	-	<u>10,704</u>	<u>2,877</u>	<u>13,581</u>
Total liabilities	-	<u>309,875</u>	<u>24,505</u>	<u>334,380</u>
Fund equity				
Reserve for encumbrances	-	-	-	-
Undesignated	<u>6,572</u>	<u>657,947</u>	<u>3,983</u>	<u>668,502</u>
Total fund equity	<u>6,572</u>	<u>657,947</u>	<u>3,983</u>	<u>668,502</u>
Total liabilities and fund equity	\$ <u>6,572</u>	\$ <u>967,822</u>	\$ <u>28,488</u>	\$ <u>1,002,882</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Schedule 3

Combining Statement of Activities – Other Governmental Funds

Year Ended June 30, 2003

	Expendable Trust Fund	Registry of Deeds	Sheriff's Grants	Total
Revenue				
Fines and fees	\$ -	\$ 565,626	\$ -	\$ 565,626
Other income	5,939	-	-	5,939
Grant revenue	-	-	97,732	97,732
Total revenue	<u>5,939</u>	<u>565,626</u>	<u>97,732</u>	<u>669,297</u>
Expenditures				
Current				
Grant expenditures	-	-	97,151	97,151
General government	4,794	398,556	-	403,350
Total expenditures	<u>4,794</u>	<u>398,556</u>	<u>97,151</u>	<u>500,501</u>
Excess of revenues over expenditures	\$ <u>1,145</u>	\$ <u>167,070</u>	\$ <u>581</u>	\$ <u>168,796</u>

Adjustments necessary to convert the results of operations for the year from a GAAP basis to the modified accrual basis of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds are as follows:

Excess of revenues over expenditures	\$ 168,796
Expendable trust fund not included under modified accrual basis	(1,145)
Capital outlays recognized as expenditures	(2,839)
Depreciation	<u>3,979</u>
	\$ <u>168,791</u>

SULLIVAN COUNTY, NEW HAMPSHIRE

Schedule 4

Budgetary Comparison Schedule – Proprietary Fund

Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
Revenues				
Residents' fees				
Medicaid	\$ 5,481,447	\$ 5,481,447	\$ 5,680,150	\$ 198,703
Medicare	326,500	326,500	355,549	29,049
Private	1,321,580	1,321,580	835,040	(486,540)
Proportionment share fund	484,706	484,706	324,971	(159,735)
Meals reimbursement	468,113	468,113	401,919	(66,194)
Insurance refunds	19,767	19,767	52,021	32,254
Laundry income	74,576	74,576	60,460	(14,116)
Grants	60,173	60,173	60,173	-
Administrative services	28,538	28,538	34,125	5,587
Cafeteria	16,190	16,190	11,785	(4,405)
Rent income	20,100	20,100	19,638	(462)
Respite care	8,000	8,000	19,232	11,232
Miscellaneous income	5,000	5,000	84	(4,916)
Total revenues	<u>8,314,690</u>	<u>8,314,690</u>	<u>7,855,147</u>	<u>(459,543)</u>
Expenses				
Administration	361,509	379,563	463,173	(83,610)
Human resources	108,842	128,828	131,918	(3,090)
Dietary	1,290,859	1,291,658	1,268,151	23,507
Nursing care	5,872,415	5,800,484	5,677,043	123,441
Operation of plant	630,766	648,876	649,406	(530)
Housekeeping	548,714	540,055	492,042	48,013
Laundry and linen	308,098	308,310	291,132	17,178
Physician and pharmacy	18,600	18,600	11,854	6,746
Special services	35,159	35,159	36,597	(1,438)
Social services	95,749	95,872	93,031	2,841
Therapy	646,387	642,207	431,874	210,333
Interest	49,980	49,980	49,373	607
Principal – bonded debt	493,675	493,675	487,306	6,369
Capital outlay	157,638	175,125	162,132	12,993
Total expenses	<u>10,618,391</u>	<u>10,608,392</u>	<u>10,245,032</u>	<u>363,360</u>
Decrease in net assets	\$ <u>(2,303,701)</u>	\$ <u>(2,293,702)</u>	\$ <u>(2,389,885)</u>	\$ <u>(96,183)</u>

Adjustments necessary to convert the results of operations for the year to a GAAP basis from budget basis are as follows:

Decrease in net assets, budgetary basis	\$ (2,389,885)
Long-term debt payment not recognized as expenditure	487,306
Capital outlays not recognized as expenditure	162,132
Depreciation	(333,685)
Encumbrances	<u>7,752</u>
Decrease in net assets, GAAP basis	\$ <u>(2,066,380)</u>



CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Commissioners
Sullivan County, New Hampshire

We have audited the financial statements of Sullivan County, New Hampshire (County) as of and for the year ended June 30, 2003, and have issued our report thereon dated August 4, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the following paragraphs.

Purchasing System

In the County's current purchase order (PO) system, PO's are routinely generated and approved after the items have been purchased and/or received. PO's for unencumbered items (those that are expensed immediately) are not numerically tracked, and no reliable system exists to account for outstanding and unrecorded PO's. Currently, there is not a second review of printed checks against the check manifest or invoices before they are sealed in envelopes and no second signature is required for checks over a specific dollar amount. These procedures represent controls that could be in place to provide segregation of duties in the disbursement system. Segregation of duties in any reporting process ensures that any one individual is not responsible for all aspects of a transaction. Segregation of duties provides protection for the County and its employees should an unintentional misstatement be recorded.

We understand that management has revised the PO system whereby a PO must be generated and approved before items may be purchased. This system is being implemented at the Nursing Home, with other departments to follow suit. We strongly recommend that all departments adopt this policy to help ensure proper control and authorization over purchases. We also recommend assigning purchase order numbers to PO's for unencumbered items to ensure that management is aware of all outstanding obligations at any point during the year. In addition, we recommend an appropriate individual review the check-run against both the manifest and related invoices to help ensure proper control over the check writing process. A second-signature policy should also be adopted for checks over a pre-determined dollar amount.

Revenue Recognition

While documenting the County's internal control system, we noted a lack of segregation of duties in the recording of revenues from elected officials. Because elected officials are not employees of the County, they manage the operation of their position independently of other County departments.

During the reporting period, the elected officials oversee the collection of revenues in their department, including cash collections, billing (if applicable), and bank reconciliation. At the end of the month, the revenues are reported to the administrative office for inclusion in the records of the County. Management of the County has no process for reconciling the amounts provided. Since the elected officials who are collecting revenues record them in a system designed for their position, we recommend that this revenue report be provided to the County when cash receipts are deposited. Instituting this procedure will allow management of the County to reconcile revenues with cash receipts.

Accounts Receivable

While auditing the Nursing Home's accounts receivable, we noted the following conditions.

In the prior year, we noted a number of Medicaid credit balances in the Nursing Home and uncashed checks being written off by the County. Our recommendation was to make every effort to resolve the credit balances and, with the help of the County Attorney, to ensure the County is complying with State abandoned property laws related to uncashed checks.

Although management has made progress related to this issue, in the current year we continue to note multiple credit balances in the nursing home accounts receivable. The exact reason for the credit balances has not yet been researched. In discussions with management, it was learned that some of these balances may be due to private pay service days that were paid, but never billed, prior to the resident becoming eligible for Medicaid coverage.

We recommend that management conduct thorough reviews of these credit balances. We also recommend that management work with the County Attorney to determine the proper resolution of the funds.

Since receiving Medicare certification in September 2002, the Nursing Home has not recorded the contractual allowances related to Medicare revenues, nor has it estimated any allowance against Medicare accounts receivable balances.

For purposes of valuation and accuracy in financial reporting, we recommend management record the appropriate contractual allowances when Medicare remittances are received and develop a process for estimating the contractual allowance for outstanding Medicare claims. The estimate could be based on the logged history of Medicare remittances and the related percentage of contractual allowances.

We also noted a considerable shift in the Medicaid and private pay accounts receivable aging from the current to the greater-than-120-day category. In discussions with management, it was learned that a number of aged balances relate to patient liabilities, some of which have been in dispute for one or more years.

We understand management is in the process of investigating the nature of these aged balances in an effort to address the negative aging trend in the Medicaid and private pay accounts receivable. We recommend management continue its efforts to monitor the aging analysis for timely investigation of aged accounts and to develop appropriate estimates for amounts estimated to be uncollectible throughout the year.

Fixed Assets

While auditing the County's fixed assets, we noted multiple inconsistencies between the recording of capital purchases and payments in the general ledger system and capitalization of related payments in the fixed asset detail, including two assets that were duplicated within the fixed asset detail, and annual debt and lease payments that were posted to the fixed asset detail. Currently, there is no routine reconciliation of current year capital acquisitions to fixed asset detail.

We recommend that reconciliations be performed periodically throughout the year and at year end. We also recommend that a control be used within BMSI (the fixed asset system) to prevent the system from creating assets with the same asset ID number. Additionally, we recommend that there be proper determination of capital assets versus lease or debt payments. When a capital asset is put into service, the entire balance of the asset should be capitalized. The lease and debt payments made on these assets in future years should not be added as additions to the fixed asset system. In previous years, lease and debt payments had been maintained in their own general ledger expense account, aiding in the separation of various payment types. If a lease arrangement is not determined to be a capital asset in accordance with generally accepted accounting principles, the regular lease payments should be expensed each year and should not be added to the fixed asset detail. An example of such an arrangement would be many copier lease arrangements. We continue to recommend the fixed asset detail be reviewed at least annually for removal of any assets disposed of during

the year. Instituting these procedures will help ensure the County's capital asset detail is accurate throughout the year and reduce reconciliation time at year end.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the County in a separate letter dated August 4, 2003.

This report is intended solely for the information and use of Sullivan County Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

Berry, Dunn, McNeil & Parker

Lebanon, New Hampshire
August 4, 2003